

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 EB-11 CIEP-02 TRSE-00 STR-08 OMB-01

CEA-02 COME-00 FRB-02 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 /165 W

----- 068422

R 231040Z JAN 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 497

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

CINCPAC HONOLULU HI

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 0982

EO 11652: GDS

TAGS: PINT ID

SUBJ: SUHARTO ANNOUNCES MAJOR REFORMS AND CURBS ON NON-
INDIGENOUS BUSINESS

SUMMARY: PRESIDENT SUHARTO HAS ANNOUNCED AN EXTRAORDINARY
REFORM PROGRAM DESIGNED TO RESTORE PUBLIC CONFIDENCE IN
HIS GOVERNMENT IN WAKE OF RIOTS IN JAKARTA JANUARY 15-16.
REFORMS INCLUDE A) DETAILED MEASURES TO ENFORCE AUSTERE STYLE
OF LIVING AND COMBAT CORRUPTION, CONFLICTS OF INTEREST AND
OFFICIAL WASTE AMONG CIVILIAN AND MILITARY OFFICIALS;
B) SWEEPING NEW POLICIES TO IMPROVE POSITION OF
INDIGENOUS BUSINESSMEN VIS-A-VIS ETHNIC CHINESE AND
FOREIGN INVESTORS AND "REDISTRIBUTE BENEFITS OF DEVELOPMENT"
(EG BAN ON GOVERNMENT CREDITS TO ETHNIC CHINESE; BAN ON FOREIGN
ETHNIC CHINESE JOINT VENTURES; ULTIMATE TRANSFER OF 50 PCT SHARES
IN SOME CHINESE ENTERPRISES TO INDIGENOUS OWNERS);

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AND BAN ON ALL IMPORTS OF PRE-ASSEMBLED AND LUXURY

CARS. RADICAL MEASURES OF BEHALF OF INDIGENOUS ENTREPRENEURS WILL APPEAL TO THIS GROUP, BUT APPEAR IMPRACTICAL, UNENFORCEABLE, AND PERHAPS ECONOMICALLY HARMFUL UNLESS IMPLEMENTED VERY GRADUALLY. IMPACT OF FURTHER RESTRAINTS ON FOREIGN INVESTMENT UNCERTAIN, BUT WILL PROBABLY DAMPEN FOREIGN INVESTOR INTEREST, IF FULLY ENFORCED. OTHER REFORMS ARE SOUND, AND IF IMPLEMENTED FORCEFULLY-A VERY BIG QUESTION MARK IN VIEW OF FAILURE OF PAST REFORM EFFORTS- THEY WOULD GREATLY ENHANCE GOVERNMENT'S BATTERED PUBLIC IMAGE. FOLLOWING BASED ON PRESS REPORTS
JANUARY 23 END SUMMARY

BEGIN UNCLASSIFIED

1. GOVERNMENT SPOKESMAN MASHURI, WHO DESCRIBED REFORM PROGRAM TO PRESS FOLLOWING ITS ANNOUNCEMENT AT NATIONAL STABILIZATION COUNCIL MEETING JANUARY 22, SAID REFORMS WILL BE IMPLEMENTED "AT LATEST" BY BEGINNING OF SECOND FIVE YEAR PLAJSN APRIL 1, 1974. KEY ELEMENTS OF PROGRAM OUTLINED BY MASHURI FOLLOW.

2. AUSTERITY CONTROLS ON OFFICIALS AND DEPARTMENTS. NEW AUSTERITY NEASURES, WHICH APPLY TO CIVIL AND MILITARY OFFICIALS ARE DESIGNED TO ENFORCE "SINPLE STYLE OF LIVING" IN KEEPING WITH NEEDS OF DEVELOPMENT, AS WELL AS TO COMBAT CORRUPTION, CONFLICT OF INTEREST AND WASTE. REFORMS ARE AS FOLLOWS: A) GOVERNMENT FUNDS WILL NOT BE USED FOR FESTIVITIES TO CELEBRATE DEPARTMENT ANNIVERSARIES; B) OFFICIALS ARE FORBIDDEN TO GIVE GIFTS PURCHASED WITH GOVERNMENT FUNDS, FORBIDDEN TO RECEIVE GIFTS, AND MUST TURN OVER ALL SUCH GIFTS TO RED CROSS; C. OFFICIALS AND WIVES ARE FORBIDDEN TO ENGAGE IN PRIVATE BUSINESS ACTIVITIES IN PERSONAL CAPACITY OR HOLD POSITIONS IN BUSINESS FIRMS, EXCEPT IN CONNECTION WITH OFFICIAL DUTIES; D) OFFICIALS ARE FORBIDDEN TO PATRONIZE NIGHTCLUBS, CASINO'S AND STEAMBATHS; E) OFFICIALS ENTITLED TO GOVERNMENT VEHICLES ARE LIMITED TO ONE VEHICLE; F)"LUXURY CARS" OWNED BY GOVERNMENT MUST BE SOLD, RE-EXPORTED OR TRANSFERRED
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TO STATE SECRETARIAT FOR USE ONLY BY STATE GUESTS; AND G)PROVINCIAL OFFICIALS ARE FORBIDDEN TO PROVIDE LAVISH RECEPTIONS OR GIVE GIFTS PURCHASED WITH GOVERNMENT FUNDS TO VISITING OFFICIALS.

3. FOREIGN INVESTMENT. FOREIGN CAPITAL WILL CONTINUE TO BE WELCOME AS A "SUPLEMENT" TO DOMESTIC INVESTMENT IN ORDER TO ACCELERATE DEVELOPMENT. HOWEVER,

STENZ WILL BE TAKEN IN THE FUTURE, TO STIMULATE DOMESTIC
POTENTIAL, AS FOLLOWS: A) PERIOD WITHIN WHICH
INDONESIAN PARTICIPANTS MUST ACQUIRE MAJORITY OWNER-
SHIP IN JOINT VENTURES WITH FOREIGN INVESTORS WILL
BE SHORTENED; B) ADDITIONAL AREAS WILL BE CLOSED TO
FOREIGN INVESTMENT; C) FOREIGN FIRMS MUST MAKE
GREATER USE OF INDONESIAN PERSONNEL; D) ALL
FOREIGN INVESTMENT MUST BE IN FORM OF JOINT VENTURES
WITH INDIGENOUS INDONESIAN COUNTERPARTS; E) TAX
HOLIDAYS AND CUSTOMS PRIVILEGES WILL BE RESTRICTED;
F) FOREIGN INVESTORS IN JOINT VENTURES WITH NON-
INDIGENOUS (ETHNIC CHINESE) PARTNERS MUST ACCELERATE
TRANSFER OF MAJORITY INTEREST TO COUNTERPARTS, WHO
IN TURN, WILL THEN TRANSFER 50 PCT OF THEIR INTEREST
TO INDIGENOUS INVESTORS.

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4. DOMESTIC INVESTMENT. TO PROMOTE INDIGENOUS BUSINESS
DEVELOPMENT, AND ACHIEVE 50/50 BALANCE BETWEEN

INDIGENOUS AND NON-INDIGENOUS BUSINESSES, FOLLOWING
WILL APPLY TO DOMESTIC INVESTMENT PROGRAM WHICH PROVIDES
LOW-COST GOVERNMENT BANK CREDITS; A) HEREAFTER DOMESTIC
INVESTMENT CREDITS WILL BE RESERVED FOR INDIGENOUS
INVESTORS; B) NON-INDIGENOUS INVESTORS WHO HAVE
PREVIOUSLY RECEIVED DOMESTIC INVESTMENT CREDITS MUST
SELL AT LEAST 50 PCT OF SHARES FINANCED BY SUCH CREDITS,
IN STAGES, TO INDIGENOUS INVESTORS; C) DEFINITION OF INDIGENOUS
ENTERPRISE IS ONE IN WHICH INDIGENOUS SHAREHOLDERS
OWN AT LEAST 75 PCT OF THE CAPITAL, OR THOSE IN WHICH
SHARES ARE EQUALLY DIVIDED BETWEEN INDIGENOUS AND
NON-INDIGENOUS OWNERS, BUT IN WHICH MAJORITY OF
MANAGEMENT IS INDIGENOUS.

5. BAN ON ASSEMBLED AUTOMOBILES. TO
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DISCOURAGE LUXURY EXPENDITURE AND PROMOTE
DOMESTIC AUTOMOBILE INDUSTRY, A) ONLY "COMPLETELY
KNOCKED DOWN" AUTOMOBILES MAY BE IMPORTED FOR
ASSEMBLY IN INDONESIA; AND B) THERE WILL BE NO
FURTHER IMPORTS OF NEW OR USED LUXURY AUTOMOBILES
EVEN IN KNOCKED-DOWN STATE, WITH DISPLACEMENT OF MORE
THAN 4000CC (SUCH AS MERCEDES BENZ 300).

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6. COMMENT: THESE SWEEPING AND UNPRECEDENTED
REFORM MEASURES DESIGNED TO DISCIPLINE CIVILIAN AND
MILITARY OFFICIAL WILL BE VERY DIFFICULT TO ENFORCE
AND PUBLIC WILL BE SKEPTICAL OF GOVERNMENT'S
DETERMINATION TO DO SO, GIVEN FEEBLENESS OF PAST
REFORM EFFORTS. HOWEVER, IF VIGOROUS EFFORT IS MADE,
THIS WOULD GREATLY ENHANCE PUBLIC SUPPORT FOR GOVERN-
MENT WHICH IS NOW AT LOW EBB FOLLOWING INEPT HANDLING
OF JAKARTA RIOTS AND HARSH REPRESSIVE MEASURES OF
RECENT DAYS. ALTHOUGH NEW EMPHASIS ON IMPROVING
POSITION OF NATIVE BUSINESSMEN VIS-A-VIS
ETHNIC CHINESE IS MUCH NEEDED, ACTUAL PROGRAMS ANNOUNCED
CAN BE ENFORCED AT BEST IN VERY SLOW STAGES.
ANNOUNCEMENT MAY ALSO FURTHER DISCOURAGE MUCH NEEDED
ETHNIC CHINESE INVESTMENT, ALREADY GUN-SHY
AFTER TWO MAJOR URBAN RIOTS IN PAST SIX MONTHS.
IMPACT OF NEW RESTRAINTS ON FOREIGN INVESTMENT
UNCERTAIN, UNTIL IMPLEMENTATION REGULATIONS
ADOPTED. HOWEVER, SOME OF THEM, ESPECIALLY COMPULSORY
BAN OF FOREIGN INVESTMENTS WITH ETHNIC-CHINESE
JOINT VENTURE PARTNERS, COULD SERIOUSLY DISCOURAGE
FOREIGN INVESTOR INTEREST IF ENFORCED.
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